

Auditor-General of South Africa

uMzumbe Municipality

Audit report 2017-18

# Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on uMzumbe Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the uMzumbe Municipality set out on pages x to x, which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of uMzumbe Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (Dora).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### Impairment of debtors

7. As disclosed in note 6 to the financial statements, the municipality recognised an impairment for bad debts of R3,16 million as the recoverability of these amounts was doubtful.

#### Underspending of the budget

8. As disclosed in the statement of comparison of budget and actual amounts, the municipality materially underspent the budget by R49,90 million on salary related costs, general expenses

and contracted services due to implementing strict cost cutting measures and re-prioritising certain projects.

### **Other matter**

9. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited disclosure notes**

10. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

### **Responsibilities of the accounting officer for the financial statements**

11. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
12. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

### **Auditor-general's responsibilities for the audit of the financial statements**

13. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
14. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

16. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
17. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2018:

Development priority	Pages in the annual performance report
KPA 2 - Basic service delivery	x – x

18. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. The material findings in respect of the usefulness and reliability of the selected development priority are as follows:

#### **KPA 2 - Basic service delivery**

#### **Reported strategic objectives were not consistent when compared with the planned strategic objectives**

##### **To ensure environmental protection and sustainability**

20. The strategic objective approved in the integrated development plan was not documented. However, the objective reported in the annual performance report was changed to 'to ensure environmental protection and sustainability' without the necessary approval.

#### **Reported indicators were not consistent when compared with planned indicators**

##### **Various indicators**

21. The indicators listed below as per the approved planning documents were subsequently changed in the annual performance report without approval.

No.	INDICATOR AS PER SDBIP	INDICATOR AS PER APR	TARGET AS PER SDBIP
1	Number of new bridges constructed and number of KMs constructed	KM of new access road constructed	1 number of new bridge and 2km of new road (Ntatshana access road)
2	Number	Number of facilities provided with chairs and tables	Furnish the 5 community halls
3	Not in SDBIP	Date	Not in SDBIP
4	Not in SDBIP	Number	Not in SDBIP

No.	INDICATOR AS PER SDBIP	INDICATOR AS PER APR	TARGET AS PER SDBIP
5	Not in SDBIP	Number of sports fields	Not in SDBIP
6	Number of households constructed	Number of reports	50 Houses constructed (Nhlangwini)
7	Number of households constructed	Number of reports	300 Houses constructed (Cluster C phase 1)
8	Number of households constructed	Number of reports	Approval for construction (Cluster B Phase 2)
9	Number of households constructed	Number of reports	Approval for construction (Cluster A Phase 2)
10	Number of households constructed	Number of reports	Approval for construction (Cluster D Phase 2)
11	Number of households constructed	Number of reports	30 Units constructed (Operation Sukuma Sakhe Ward 12)

## Reported targets were not consistent when compared with planned targets

### Various indicators

22. The targets listed below as per the approved planning documents were subsequently changed in the annual performance report without approval.

No.	INDICATOR AS PER APR	TARGET AS PER SDBIP	TARGET AS PER APR
1	Number of households connected	Mbiyana phase 1: 232 households connected	Mbiyana phase 1: 40 households connected
2	Date	Not in SDBIP	Park development: 1
3	Number	Not in SDBIP	Parks workshops: 1
4	Number of sports fields	Not in SDBIP	Sports fields maintenance
5	Number of reports	50 Houses constructed (Nhlangwini)	Reports on the construction of 50 Houses constructed (Nhlangwini)
6	Number of reports	300 Houses constructed (Cluster C phase 1)	Reports on the construction of 300 Houses constructed (Cluster C phase 1)
7	Number of reports	Approval for construction (Cluster B Phase 2)	Reports on Approval for construction (Cluster B Phase 2)
8	Number of reports	Approval for construction (Cluster A Phase 2)	Reports on Approval for construction (Cluster A Phase 2)
9	Number of reports	Approval for construction (Cluster D Phase 2)	Reports on Approval for construction (Cluster D Phase 2)
10	Number of reports	30 Units constructed (Operation Sukuma Sakhe Ward 12)	Reports on construction of 30 Units constructed (Operation Sukuma Sakhe Ward 12)

## Measures taken to improve performance not valid

### Various indicators

23. The measures taken to improve performance against the targets were invalid. The reasons stated for failure to perform were not the correct reasons as per our assessment.

No.	INDICATOR	REASON FOR DEVIATION	MEASURES TAKEN TO IMPROVE PERFORMANCE	COMMENT
1	KMs of roads maintained	Target not met due to the initial contractor declining the appointment and the new contractor being appointed on 11 May 2018	Project to be completed on 11 December 2018 as per the contract	Upon inspection of the initial contract it was noted that the first contractor was appointed on 8 May 2018, which would have been too late to achieve the set target.
2	Number of facilities provided with chairs and tables	There was no budget allocated for this project with further omissions made during the budget adjustment	To budget on the 2018-19 financial year	Reasons could not be obtained for why the target was included in the SDBIP even though there was no budget for it.

## Reliability

### Various indicators

24. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators was as follows:

No.	INDICATOR	TARGET	REPORTED ACHIEVEMENT	AUDITED VALUE
1	KMs of roads maintained	Gravelling and storm water: 8km	<ul style="list-style-type: none"> <li>1.5km of shaping completed</li> <li>Overall progress is 25% completed</li> </ul>	<ul style="list-style-type: none"> <li>Site establishment 100%</li> <li>Clear and grubbing 100%</li> <li>Roadbed preparation 100%</li> <li>Layerworks 50%</li> <li>Overall progress 25%</li> </ul>
2	Number of sports fields upgraded	Isibanini sports field: 1 sports field with retaining wall and concrete lined drain	Isibanini sports field completed	An approved variation order for August 2018 exists, meaning, the project is not yet complete as at 30 June 2018.
3	Percentage completion	Inkanini indoor sports centre phase 2: Complete 100% building finishes and external work, electricity and wet services connected	Storm water drainage 90%	Storm water drainage 0%

#### Various indicators

25. The municipality did not have an adequate record-keeping system to enable reliable reporting on achievement of the indicators listed below. As a result, I was unable to obtain sufficient appropriate audit evidence in some instances, while in other cases the supporting evidence provided did not agree to the reported achievements. Based on the supporting evidence which was provided, the achievement of these indicators differed from the reported achievement in the annual performance report. I was unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements of the indicators listed below:

No.	KPI MEASURE/INDICATOR AS PER APR	TARGET AS PER APR	REPORTED ACHIEVEMENT AS PER APR	AUDITED VALUE
1	Number of reports	Reports on the construction of 50 Houses Constructed (Nhlangwini)	Target met: 4 reports submitted	Reports on the construction of 1000 houses constructed
2	Number of reports	Reports on the construction of 300 houses (Cluster C phase 1)	Target met: 4 reports submitted	Reports on the construction of 1000 houses constructed
3	Number of reports	Reports on approval for construction (Cluster B phase 2)	Target met: 4 reports submitted	No reports submitted
4	Number of reports	Reports on approval for construction (Cluster A phase 2)	Target met: 4 reports submitted	No reports submitted
5	Number of reports	Reports on approval for construction (Cluster D phase 2)	Target met: 4 reports submitted	No reports submitted
6	Number of reports	Reports on the construction of 30 units (Operation Sukuma Sakhe Ward 12)	Target met: 4 reports submitted	No reports submitted



## **Other matters**

26. I draw attention to the matters below.

### **Achievement of planned targets**

27. The annual performance report on pages x to x includes information on the achievement of planned targets for the year. This information should be considered in the context of the findings on the usefulness and reliability of the reported performance information in paragraphs 20 to 25 of this report.

### **Adjustment of material misstatements**

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic service delivery. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

29. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

30. I did not raise material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

### **Other information**

31. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected development priority presented in the annual performance report that has been specifically reported in this auditor's report.

32. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

33. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

34. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am requested to report that fact.

35. I have nothing to report in this regard.

### Internal control deficiency

36. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
37. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report included in this report.
38. Leadership did not exercise adequate oversight responsibility regarding performance reporting, as standard operating procedures to support performance reporting were not designed.
39. Management did not ensure that regular, accurate and complete performance reports were prepared which were supported and evidenced by reliable information.

### Other report

40. I draw attention to the following engagement conducted by various parties that could have an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. This report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
41. At the request of the uMzumbhe municipal council, the Cogta MEC has authorised a forensic investigation into the affairs of the uMzumbhe municipal council in terms of section 106 of the Municipal Systems Act. The investigation will focus on alleged fraud, corruption and maladministration within the municipality.

*Auditor-General*

Pietermaritzburg

14 December 2018



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